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SUBJECT: PDS UPDATE: "DIFFICULT, COMPLICATED AND SLOW"

REF: BAGHDAD 1480

Classified By: Economic Minister Counselor Marc M. Wall for reasons 1.4
(b) and (d).

¶1. (C) SUMMARY: Reform of the Iraqi Public Distribution System (PDS) may be delayed "by months, not years," according to Trade Minister Al-Sudani. The MOT had hoped to reduce the PDS roles by 25 percent beginning in January 2009. However, it has run into political opposition, as well as concerns within the GOI that rapid changes could lead to hardship for some Iraqis and even violence. Al-Sudani remains committed to implementing reform. However, he made it clear that doing so will be "difficult, complicated and slow," and that he will not rush the process if it could lead to social instability. END SUMMARY.

"Months, Not Years"

¶2. (SBU) Minister of Trade Abd Al-Falah Al-Sudani told FAS Counselor and Econoff August 19 that the first phase of PDS reform may have to be delayed. According to the MOT's roadmap for PDS reform (reftel), income and other means-testing information was to be collected in November as part of the PDS re-application forms that all Iraqis must submit annually. Based on the data gathered, the MOT hoped to eliminate rations for all Iraqis earning more than 250,000 Iraqi Dinars (US \$224) per month, beginning with the January distribution. The process has fallen behind schedule, Al-Sudani explained, in part because the new means-testing questionnaire will not be finalized in August as originally planned.

¶3. (SBU) Al-Sudani said the questionnaire has been held up because of disagreements within the GOI over the cut-off level for benefits. An interagency PDS Committee had estimated that the 250,000 Dinar cut-off level would be required in order to reduce the PDS rolls by roughly 25 percent. However, some cabinet ministers are now calling for a 300,000 Dinar limit, arguing that the lower cut-off would cause hardships for too many poor Iraqis and could actually create country-wide shortages of some PDS commodities. (Embassy Comment: We assume the Minister was suggesting that shortages would occur because, currently, many wealthier Iraqis "re-distribute" their unconsumed rations via the black market. End Comment.) Advocates of the higher income level are now holding up approval of the questionnaire, but Al-Sudani hastened to emphasize that any delays will be a matter of "months, not years."

Balancing Reform and Stability

¶4. (C) The MOT remains committed to reforming the PDS, and Al-Sudani understands that the lower, 250,000 Dinar limit is necessary to meet the MOT's 25 percent goal. However, he expressed some sympathy for the arguments of those who want to raise that cut-off. Whatever the abuses and inefficiencies that may exist at some levels, PDS provides a badly needed benefit to many poor Iraqi families, he explained. If reforms are not implemented carefully, the

sudden elimination of benefits could cause hardship -- and possibly social unrest -- among some sectors of the population. Indeed, Al-Sudani warned, there are still "agitators" in Iraq who might use any pretext to sow discord or even instigate social unrest. PDS is still the world's largest food ration distribution program, every Iraqi is a beneficiary, and the system has existed since 1980.

15. (C) COMMENT: Despite these potential delays, we remain convinced that the GOI will ultimately reform the PDS. However, concerns about both the social safety net and possible unrest are valid. As Al-Sudani himself put it, the GOI will implement reforms, but it will be "difficult, complicated and slow."
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